

## Italy: Flirting with technical recession

Poor November industrial production data combined with soft confidence numbers markedly increase the chances of Italy entering a technical recession in 4Q



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Industrial production data, just published by Istat, showed that the Italian economy shared the same difficulties as Germany and France in November. Although a public holiday at the start of the month might have contributed to the worsening picture, we believe the impact is probably only minor.

### Lowest YoY reading since October 2014

The seasonally-adjusted measure contracted by 1.6% month-on-month (from a downwardly revised -0.1% MoM in October). The working day-adjusted YoY reading, better suited to monitor the trend, was also sharply down to -2.6% (from +1% in October), the lowest reading since October 2014. Production contracted by 2-4% MoM in intermediate goods, 1.7% MoM in investment goods and 0.9% in consumer goods. Only energy production managed to post a 1% MoM increase.

## No big sectoral highlights and a confirmation of poor performance in the construction chain

A quick look at the sector performance shows that, among the recent best performers, only pharmaceuticals managed to maintain positive YoY growth (+1.3% YoY). Machinery and plant production lost ground (-2.2% YoY) and transport equipment, the growth champion at the beginning of the year, fell heavily into negative territory (-4.3% YoY). There was no relief for sectors related to the construction production chain, with rubber and non-metal minerals (-6.7% YoY) and wood and paper (-10.4% YoY) the worst performers.

## A 0.1% QoQ GDP contraction and technical recession our new base case

The November production reading adds serious doubt about GDP growth over 4Q18. Over the Sep-Nov quarter, industry data on a seasonally-adjusted basis, contracted 0.1% QoQ and confidence data has deteriorated further overall. On past form, both the ESI and our computed PMI composite measure for Italy for 4Q18 are consistent with a contraction of Italian GDP in 4Q18. We are now pencilling in a second consecutive 0.1% QoQ GDP contraction in 4Q18, which would mark the start of a technical recession

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